

Sections 6.3 and 6.4 - Sales Taxes - GST/PST/HST

Sales taxes come in many forms in Canada - the federal **GST (Goods and Services Tax)**, the provincial **PST** or **RST (Provincial Sales Tax** or identical **Retail Sales Tax)** and the new **HST (Harmonized Sales Tax)** which combines both GST and PST into a single sales tax.

GST (and HST) is paid by all customers – manufacturers, wholesalers, retailers, consumers – on the purchase of all goods and services, with several exceptions.

On the other hand, only final customers (consumers) must pay PST (where it exists) on the purchase of all goods, but not services, and once again, with several exceptions.

HST is currently in use in five of the ten Canadian provinces, including Ontario.

In this classroom, we will focus almost exclusively on Ontario's HST.

The current rate of HST in Ontario is 13%.

Sales and HST Payable

Businesses are required by law to collect HST (or GST and/or PST where applicable) from their customers on all sales and then **remit** (return) those sales taxes to the federal government at a later date.

These sales taxes are accumulated in an account known as **HST Payable (or GST Payable and/or PST Payable** where applicable).

HST Payable is a liability account because it represents accumulated sales taxes collected by a business from its customers that are due and payable (owing) to the federal government.

Purchases and HST Recoverable

Even though **businesses** are required to pay the HST (or GST and/or PST where applicable) on all of their purchases, they are also entitled by law to fully recover from the federal government all HST or GST (but not PST) paid on any "eligible business purchase or expense related to their commercial activities" (such as legal fees, supplies and inventory, but does not include capital property such as buildings and machinery) at a later date.

This recoverable HST (and GST) is properly called an **input tax credit (ITC)** by the CRA or, as it is known in grade 11 Accounting, **HST Recoverable (or GST Recoverable** where applicable).

HST Recoverable represents the HST already paid by a business on its eligible purchases and now owing to that business by the federal government.

HST Recoverable is not an asset though - rather it is considered a **contra liability account** because it represents a liability account with a debit balance which is contrary to the ordinary rules of debit and credit theory.

Accounting for HST on sales and purchases

On a cash sale (or sale on account) of goods or services in Ontario:

Bank or A/R - dr - 113
----- Revenue (Sales or Fees Earned) - cr - 100
----- HST Payable - cr - 13

On a cash purchase (or purchase on account) of supplies by a business in Ontario:

Supplies - dr - 100
HST Recoverable - dr - 13
----- Bank or A/P - cr - 113

Please keep in mind that for a sale or purchase on account, sales taxes are only calculated and reported for the initial sale or purchase (sell/buy now) and not for the subsequent payment of the outstanding debt (collect/pay later). For example:

A/R - dr - 113
----- Revenue (Sales or Fees Earned) - cr - 100
----- HST Payable - cr - 13

Bank - dr - 113
----- A/R - cr - 113

- or -

Supplies - dr - 100
HST Recoverable - dr - 13
----- A/P - cr - 113

A/P - dr - 113
----- Bank - cr - 113

Remittance of HST to the Government

At the end of every federal reporting period (usually monthly, quarterly or annually depending on sales figures), the balance in HST Recoverable is subtracted from the balance in HST Payable and only the difference (**net HST Payable**) is **remitted** (returned) to the federal government's Canada Revenue Agency (CRA), assuming HST Payable is greater than HST Recoverable.

The federal government will then distribute a share of those taxes to the appropriate provincial government equivalent to that province's former rate of PST (e.g., 8% in Ontario).

Businesses usually have one month from the end of each reporting period within which to remit net HST Payable. (Remittance of GST, where applicable, follows the same rules as those for HST. PST, where applicable, must usually be remitted to the provincial government at the end of every month, and normally within fifteen days of the end of each provincial reporting period.)

Think of the transaction as follows:

HST Payable (amount **owed** by our business to federal government)
- HST Recoverable (amount federal government **owes** our business)
= net HST Payable (amount actually **remitted** or returned to federal government)

Please note that if HST Recoverable is greater than HST Payable, the difference is actually a **refund** owing to our company from the federal government.

HST Payable(owing to government)	HST Recoverable(owing to us)	Amount of remittance	OR Amount of refund
\$2,300	\$1,500	\$800	
\$4,500	\$5,000		\$500
\$18,000	\$12,000	\$6,000	

When HST is **remitted** at the end of each reporting period, a journal entry must be prepared. A sample journal entry for the remittance of HST at the end of a reporting period appears as follows, assuming total HST Payable of \$2000 and total HST Recoverable of \$1400:

HST Payable - dr - 2000
----- HST Recoverable - cr - 1400
----- Bank - cr - 600

This journal entry has the effect of bringing the balances in both HST Payable and HST Recoverable to zero. In the above example, the business was required to **remit** net sales taxes to the federal government (CRA) in the form of a \$600 cheque (\$2000 - \$1400) payable to the Receiver General of Canada.

HST on the Balance Sheet

You will remember that both HST Payable and HST Recoverable are classified as liabilities (HST Recoverable is a **contra liability** though) in the books.

In the liabilities section of the balance sheet, HST Recoverable is subtracted from HST Payable to arrive at **net HST Payable**:

Liabilities

Accounts Payable ----- 5000
HST Payable ----- 2000
Less: HST Recoverable - 1400
Net HST Payable----- 600
Bank Loan ----- 9500